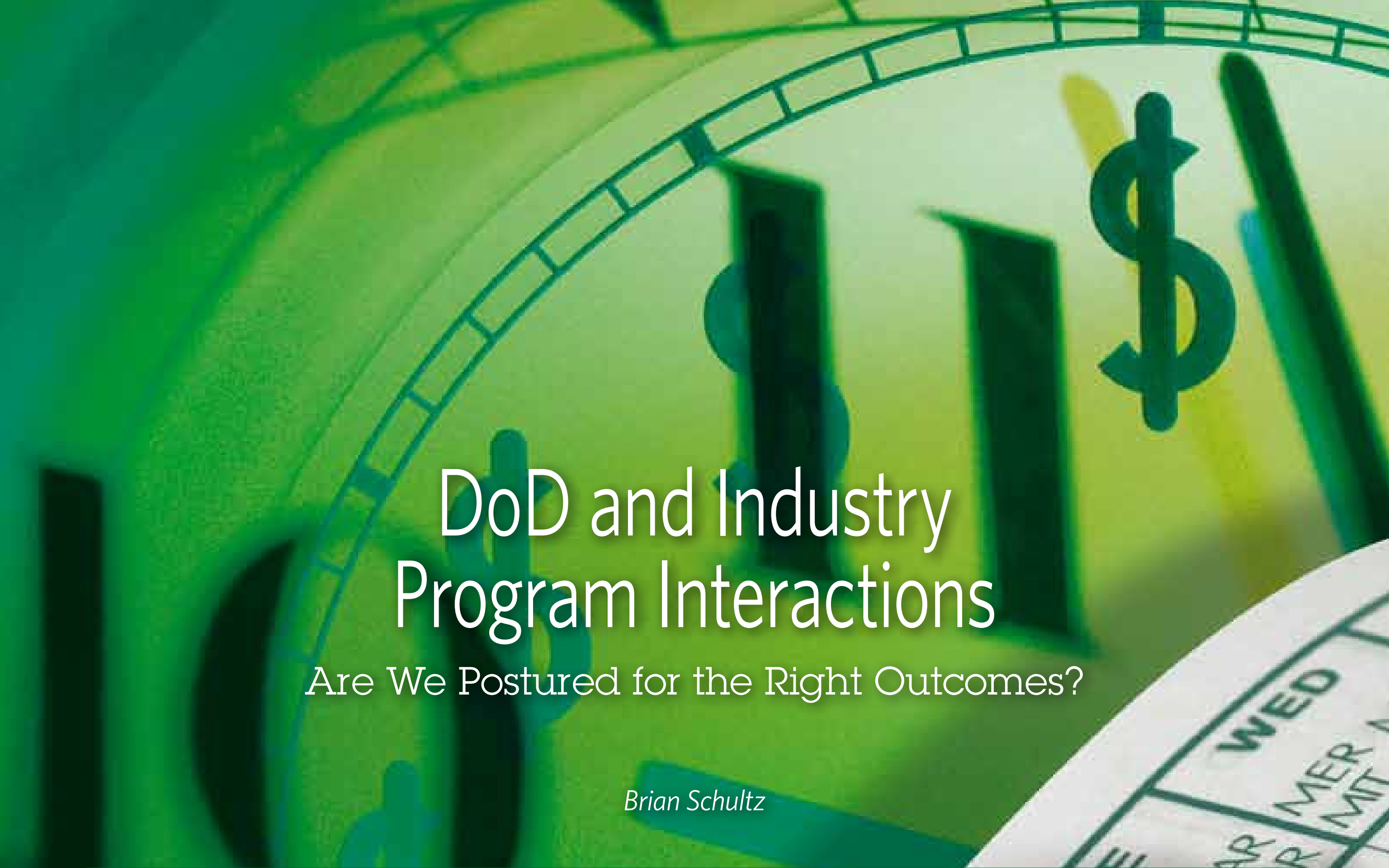


DoD and Industry Program Interactions

Are We Postured for the Right Outcomes?

Brian Schultz

While much has been written regarding government and contractor interactions, (including statutory and policy guidance), there is no single "one size fits all" model governing this important relationship. There are, however many dynamics, events, and lessons learned that both parties should consider in the context of a program office environment.

Pre-Award Phase

Government-industry interaction typically begins in a pre-award environment where a notice of a potential contract opportunity (e.g., sources-sought synopsis, request for information) is published online on a website like www.FedBizOpps.gov. Organizations may also hold periodic conferences to alert industry of upcoming projects and points of contact. It's important to note that industry often will be aware of the opportunities well in advance of the first official communication of the requirement to industry. Companies not only track the Department of Defense budget process but also maintain liaison with various requirements organizations to understand the future pipeline of needs that may fall within their corporate domain.

The pre-award phase of interaction is critically important since it lays the foundation for future acquisition outcomes. This foundation is documented with the acquisition strategy and Request for Proposal (RFP). Program managers (PMs) should invest their full attention to these documents and ensure that even minor errors and inconsistencies are resolved. I remember one program on which we issued several RFP amendments to correct errors we should have caught upfront but were in a hurry to get on contract. Fixing these errors (and

Schultz *is a DAU Mid-Atlantic Region professor of program management. He has extensive experience as a program manager in the Defense Department and in industry.*

Report Documentation Page

Form Approved
OMB No. 0704-0188

1. REPORT DATE **FEB 2013**	2. REPORT TYPE	3. DATES COVERED **00-00-2013 to 00-00-2013**
4. TITLE AND SUBTITLE **DoD and Industry Program Interactions: Are We Postured for the Right Outcomes?**		5a. CONTRACT NUMBER 5b. GRANT NUMBER 5c. PROGRAM ELEMENT NUMBER
6. AUTHOR(S)		5d. PROJECT NUMBER 5e. TASK NUMBER 5f. WORK UNIT NUMBER
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) **Defense Acquisition University,Defense AT&L,9820 Belvoir Road,Fort Belvoir,VA,22060-5565**		8. PERFORMING ORGANIZATION REPORT NUMBER
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S) 11. SPONSOR/MONITOR'S REPORT NUMBER(S)
12. DISTRIBUTION/AVAILABILITY STATEMENT **Approved for public release; distribution unlimited**		
13. SUPPLEMENTARY NOTES		
14. ABSTRACT		
15. SUBJECT TERMS		

16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT **unclassified**	b. ABSTRACT **unclassified**	c. THIS PAGE **unclassified**	**Same as Report (SAR)**	**6**	

Standard Form 298 (Rev. 8-98)
Prescribed by ANSI Std Z39-18

"The universe never did make sense; I suspect it was built on government contract."

—Robert A. Heinlein

the associated proposal due date revisions) ended up costing us a lot more time and effort than if we had allocated more front-end time to ensure we had a quality RFP.

While DoD program offices often are very busy in this pre-award phase with internal actions such as developing the acquisition strategy and RFP, communication with industry should be a priority. PMs should consider several mechanisms to facilitate this communication, including activities such as Requests for Information (RFIs), industry days, pre-proposal conferences, one-on-one meetings, draft RFPs, and should allow adequate time for proposal submissions.

As a contractor, I attended many pre-award planning conferences. These sessions were very beneficial in identifying potential business partners for subcontracting opportunities. Developing these teaming arrangements with other companies can take weeks if not months, so DoD PMs should consider the timing of these events as well as business lead-times with requirement need dates.

Understanding industry motivations is also important in the pre-award phase. PMs should not assume that profit on a particular contract is the only or most important incentive for a contractor. Industry may have several motivations for winning a contract and earning a reasonable profit is not necessarily the driver. A company may decide to invest in an opportunity to position itself for future business or to even keep a business unit in business. So why should the DoD PM care if the contractor assumes responsibility for the contract costs and schedule?

The DoD PMs should care because this investment situation can negatively affect the program outcomes for which they are responsible. Cost overruns and schedule slips, regardless of contract type or cause, typically lead to serious consequences for both parties. As a contractor, I was able to observe a buy-in situation where our company wanted to gain traction in a particular market segment. Our management decided we would "invest" in a program by proposing a price that would be a break-even at best and we accepted a lot of schedule and cost risk on a fixed-price contract.

We won the contract but the program was over budget, late, and the customer was not happy with the outcome. In hindsight, we should have managed the customer's expectations upfront and ensured that the key stakeholders understood the risks we signed up for. The lesson learned is that identifying and mitigating this buy-in risk in the pre-award phase by DoD and industry should be a priority if we want a successful outcome in the post-award phase. Buy-ins are not necessarily bad, but they can be risky for all parties involved if not managed upfront.

In late 2011, several news reports covered a company's "low-ball" price, which was instrumental in winning a highly visible and important Air Force contract. This company reportedly proposed costs that were significantly lower that what it actually believed would be required to complete the work. If this was the case, the fixed-price incentive target price was unachievable and offered little chance of DoD reaping any savings from an underrun. The target price also becomes meaningless for any cost incentive in this situation. DoD will be obligated to pay its share of the "cost overruns" up to ceiling price. Any costs over the ceiling price must be absorbed by the company.

Several questions come to mind in these situations such as: If costs were underbid, how realistic is the proposed schedule? How do we incentive the contractor to perform? What is the real target cost and real plan?

On the positive side, both parties understand and acknowledge the situation at the beginning of the program. The DoD PM can plan and budget to the ceiling price, knowing the contractor's spend plan to complete the contract will exceed the

target price. Further, a solid basis for credible execution can be established once the performance plan is understood and baselined by both parties, avoiding surprises that can quickly erode credibility.

Another factor to consider in pre-award planning is the requirement for and scheduling of DoD program office and contractor program workshops and including them in the RFP and Statement of Work. This ensures that the events are within the scope of the required contractual effort. It also sends a clear message that these events are important.

One workshop, the Acquisition Program Transition Workshop (APTW), was started by the Defense Acquisition University in 2004 to assist DoD and contractor program teams in obtaining alignment of expectations and processes. Feedback suggests that these APTWs are well worth the time and effort for both parties. Note that an April 1, 2011, memorandum from the Under Secretary of Defense for Acquisition, Technology and Logistics (USD [AT&L]) recommends that PMs of Acquisition Category (ACAT) 1D, 1AM, and special interest programs conduct this workshop within the first month following contract award or re-baseline action. Once the contract is awarded, PMs should be ready to execute the plan.

Post-Award Phase

For purposes of this discussion, the post-award phase of DoD-industry interaction assumes that a significant contract (dollar value, risk, urgency) is awarded and involves a complex weapons system, services effort, or information technology project. A smaller, less complex effort may not require the same level of interaction. Given the complex type of environment, DoD and industry PMs need to plan for contractually required events as well as start the dialogue on how the teams will interact.

The following is a list of some of the key items that should be considered at the outset by the PMs in planning the execution of the contract and the initial APTW:

- Teaming: How can we build a team framework built on trust? What team-building activities may be appropriate to get the teams off to a good start?
- Organizational structures: How are the teams organized? How do different teams interact? To whom do they report? What is their charter?
- Lines of communication: How does information flow? How often? How is sensitive or protected information handled?
- Metrics: What metrics will the team capture and track? How often will they be reported and to whom?
- Joint Governance: How is program status reviewed? What level in the organization? How often and what kind of meeting? How will issues be resolved?
- Supplier management: How will supplier actions be tracked? What subcontract articles have the greatest risks and how will these be mitigated?
- Risk management: What process will we use to manage risks? How will we track mitigation strategies?

The initial APTW should be one of many post-award events conducted to improve teamwork. Others may include team effectiveness workshops, working together team events, and climate survey workshops intended to build a cohesive and effective team. Using professional, third-party facilitators also is a good practice as it can prevent the appearance of bias if either the DoD or contractor team leads the event. The respective teams need to work together and understand that their effectiveness in solving problems can be greatly diminished if teamwork issues are not resolved early.

Both parties should make these teaming events a priority. Years ago as a contractor PM, I experienced an "awkward" situation in which my DoD PM counterpart was genuinely interested in teaming but several members of his DoD team had a different view of how contractors should be treated. Unsurprisingly, we encountered issues with expectations on contract deliverables, teamwork, and contract performance. In hindsight, this disconnect should have been identified and resolved early on in a team workshop, but our contract did not include provisions for this type of event.

Using professional, third-party facilitators is a good practice as it can prevent the appearance of bias if either the DoD or contractor team leads the event.

Lessons Learned

There are some other important questions that I believe PMs should consider in the context of this DoD-industry relationship. These questions are based on my lessons learned and experiences in managing many programs.

What factors motivate the contractor to perform on this contract? Profit? Revenue? Noncontractual factors?

As discussed earlier in the context of buy-ins, contractors have many motivations in pursuing DoD contracts. Getting access to new mission areas, keeping employees on the payroll, growing future business opportunities, and keeping a good record of performance could be additional considerations along with financial performance on any one contract. PMs need to understand what is driving the company team behavior and not assume that making a big profit is the biggest or only incentive.

DoD PMs should understand the accounting calendars and company financial metrics of their industry counterparts. Booking the sale at the end of the year or quarter can be a big deal for the company as it seeks to achieve its financial targets and keep the shareholders happy. This also can mean some leverage for the DoD PM in the context of encouraging certain behaviors or other desired outcomes.

How will we hold each other accountable?

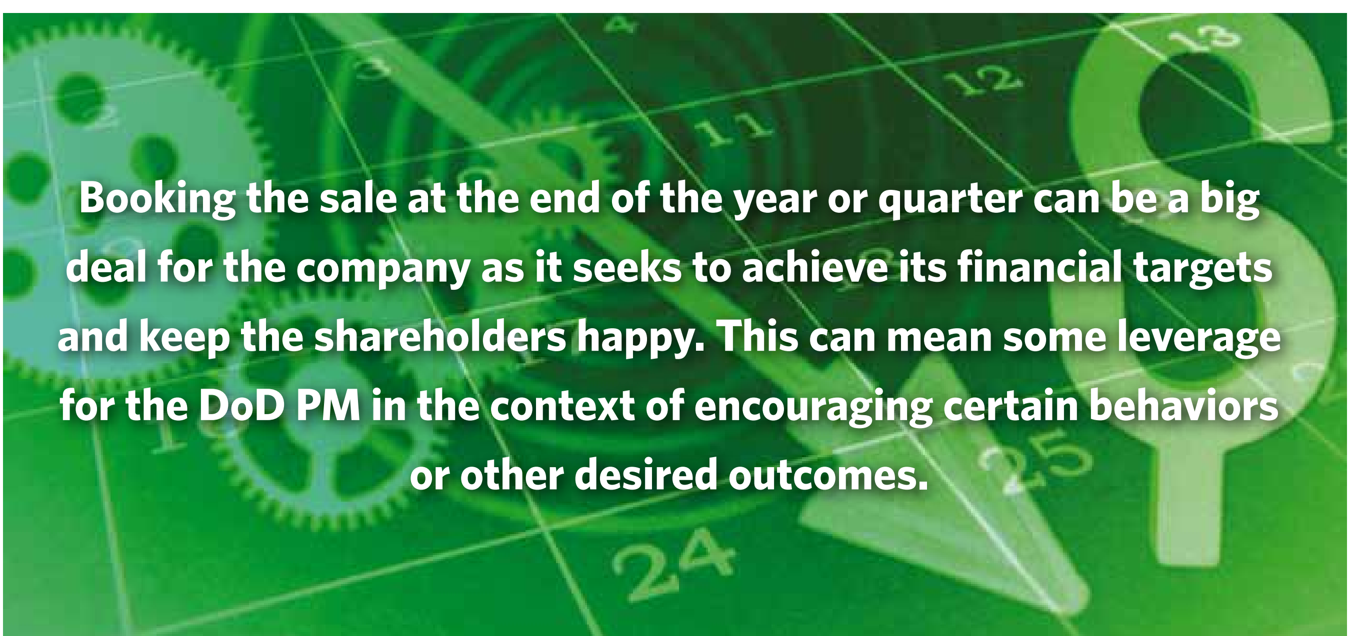
If credible contract execution performance is important, DoD must ensure that contractors are accountable to provide it. DoD teams send a clear message by enforcing the terms of the contract. Providing the expectation upfront that deviations from contractual requirements are considered very serious by the government and should be addressed prior to the actual occurrence is a good practice. Contractor past performance assessment reports should be generated and include adequate narrative of product/service quality, schedule, cost control, and other areas of performance. Note that a Feb. 24, 2011, memorandum from the director of defense procurement and acquisition policy indicates that DoD conducted evaluations on only (approximately) 50 percent of eligible awards. DoD PMs can help resolve this issue by ensuring this mechanism is being used on eligible contracts.

On the other hand, the DoD team must be accountable for its responsibilities in the process. The DoD team has an important role to play in reviewing and approving technical progress, deliverables, and payments in timelines specified in the contract. The industry PM should monitor this performance and identify any issues in a timely manner for quick resolution. If issues are not resolved, contractor PMs should take proactive measures to ensure an equitable outcome. Effective communication and teamwork between the parties can potentially solve these issues before they become major problems.

Are we collecting the right data? How is it adding value to us?

The use of metrics in assessing a program's health, getting insight into problem areas, and predicting future outcomes are important for most complex programs. While these metrics can take many forms, PMs should assess the value of the data and if it is providing useful information. The metrics should be compared to previous reports and trend data should be looked at and analyzed. The projections for closing out and completing open tasks should be included and monitored by both teams. Individuals responsible for the metrics and actions should be identified clearly.

DoD program teams should not always assume that the contractor will develop or provide the right data needed to give the team adequate insight into the program's health. This does



not preclude the DoD team from gathering data, analyzing it, and reporting on various program areas, assuming access to the data. The DoD team should work with the contractor to ensure both teams are using the right information to enable effective insight, oversight, and control of the program. This may take a few iterations before the teams find the right mix of data and metrics that add value to the respective teams.

How can we ensure we are getting best value in a sole source environment?

Although similar, the best value definition in this context is not the Federal Acquisition Regulation (FAR) Part 15-based definition used in competitions as a means to select the most advantageous offer by evaluating and comparing factors in addition to cost or price. The best value referred to in this discussion means industry is working not only to provide a high-quality technical solution that meets requirements but also to look for efficiencies that make efforts more affordable and cost-effective.

One approach DoD and industry PMs should consider in a sole source procurement is use of the "Alpha contracting" method. This method differs from the traditional approach in that RFP and proposal processes are integrated and run concurrently vice sequentially. From solicitation development through proposal preparation, evaluation, negotiation, and award, Alpha contracting relies on a team approach to concurrently develop a scope of work, price that scope, and prepare the contract to execute the scope. The basic idea is to get team buy-in throughout the process, thereby minimizing rework of proposal and contract file documents. This also can foster better teamwork and IPT alignment based on the robust communication and team involvement required for this type of approach.

Given the current and projected fiscal realities, the imperative for better solutions and reduced costs may drive how acquisitions are conducted and even what programs will survive. Sole-source proposals should expect additional scrutiny from DoD and contractor PMs to ensure they are providing value commensurate with a competitive environment.

To the extent practical, the message to sole source contractors should be: Don't expect future contracts to be awarded on a sole source basis—competition is good for both DoD and industry (and taxpayers). It's how we do business, and we are always looking for new and innovative solutions. PMs should also ensure that the appropriate level of data rights is acquired to support follow-on competitions, assuming the business case supports it.

Another approach to consider in executing the contract is the use of stretch goals. The stretch goal may represent an earlier delivery or a cost goal that beats the contractual date or target price. It is considered ambitious but achievable, and the teams will work to achieve the stretch goal, recognizing that even if they don't meet it, there is still some buffer to enable meeting the contractual date or cost. My experience suggests that teams like to be challenged and meeting the stretch goal gives the joint DoD/contractor team a clear incentive to push hard to meet the goal. Note that with the recent USD(AT&L) guidance on establishing both a "will-cost and a "should- cost" estimate, all programs should be now be establishing a cost stretch goal ("should-cost").

Be careful with this goal setting, though, because, if you ask for too much too often, you can burn the team out. This will defeat the purpose of using the stretch goal and could result in lost productivity, poor morale, and other unintended consequences.

Final Thoughts

The importance of understanding industry and what drives companies in the defense arena is widely recognized as fundamental knowledge that DoD PMs should possess. To that end, new course content, including a new DAU course (ACQ 315, Business Acumen) is under development and planned for roll-out in fiscal 2013.

DoD and industry program teams operate in a challenging and dynamic environment with lots of scrutiny. These teams that plan and execute acquisition programs must understand the dynamics of working with each other and look for opportunities to be more effective and efficient. Understanding each other, making this relationship a priority, and developing a thorough plan of action are good steps to help foster successful outcomes.

The author can be contacted at **Brian.Schultz@dau.mil**.